

Message Text

CONFIDENTIAL

PAGE 01 CAIRO 09284 01 OF 02 081803Z

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W

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R 081637Z JUL 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 5090

CONFIDENTIAL SECTION 01 OF 02 CAIRO 9284

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EXDIS

E.O. 11652: GDS

TAGS: PFOR, EINV, EG, US

SUBJ: ARAB BOYCOTT: FORD

REFS: (A) STATE 166447 (B) CAIRO 9103

SUMMARY: FORD'S INVESTMENT PROPOSAL HAS ENCOUNTERED SERIOUS POLITICAL AND EXONOMIC OBSTACLES. COMPANY RETAINS INTEREST IN CONCLUDING ACCEPTABLE INVESTMENT IN EGYPT, AND NOW HAS A FAR CLEARER IDEA OF WHAT NEEDS TO BE DONE TO ATTAIN THIS OBJECTIVE. END SUMMARY

1. FORD REP OUROUSSOFF CALLED ON AMBASSADOR JULY 8 TO DISCUSS STATUS FORD INVESTMENT PROJECT AND DELIEVER FOUR-PAGE DOCUMENT MENTIONED PARA 2, REF A. OUROUSSOFF STRESSED MARKED CHANGE IN OVERALL VIEWS ON PROJECT WHICH HAS DEVELOPED OVER PAST 30 DAYS, FROM OPTIMISM AT TIME MEMORANDUM OF UNDERSTANDING WAS SIGNED TO PRESENT FEELING OF CONFUSION AND DISCOURAGEMENT. HE SPOKE QUITE FRANKLY THROUGHOUT SESSION, AND HIS PERSONAL VIEWS SHOULD BE PROTECTED.

2. OUROUSSOFF SAID THAT HE FELT PRINCIPAL PROBLEM WAS SHIFT IN INITIAL FORD OBJECTIVE, AS CONCEIVED 18 MONTHS AGO, TO DEVELOP A PROJECT HIGHLY FAVORABLE TO EGYPT WHICH WOULD ENTAIL "PAYING A PRICE" IN ORDER TO BE CONFIDENTIAL

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PAGE 02 CAIRO 09284 01 OF 02 081803Z

REMOVED FROM BACKLIST AND THEREFORE GAIN ACCESS TO

LUCRATIVE ARAB MARKETS. WITH PASSAGE OF TIME, COMPANY FORGOT WHO HAD MOST TO GAIN, AND NEGOTIATING TEAM THAT WAS SENT TO EGYPT WAS TOUGH, DEMANDING, AND UNPREPARED TO PAY ANYTHING: WHAT THEY WANTED WAS TO GET, NOT GIVE. FORD NEGOTIATORS HAD PUSHED EGYPTIAN TECHNICAL TEAM HARD AND BAD TASTE HAD BEEN LEFT IN EGYPTIAN MOUTHS. ONE OF FORD'S LOCAL LAWYER'S (GHARKNI'S) BROTHER-IN-LAW, WHO WAS KILLED LAST WEEK IN AUTO ACCIDENT, HAD TOLD OUROUSSOFF THAT HE HAD SEEN TECHNICAL COMMITTEE REPORT AND THAT ITS RECOMMENDATION HAD BEEN NEGATIVE. SURFACING OF PRESENT PROPOSAL AT FAHMY LEVEL HAS THEREFORE LED TO WHAT COULD HAVE BEEN ANTICIPATED RESULT, I.E., EGYPTIANS ARE FAR FROM SATISFIED.

3. AMBASSADOR REPORTED ON HIS CONVERSATION WITH FAHMY AS CONTAINED REF B (IF NOT ALREADY DONE, SUGGEST DEPT. PASS CONTENTS REF B TO FREDRICKS), WITH PARTICULAR REFERENCE TO LOW EQUITY PROBLEM IN TERMS OF POLITICAL COSTS EGYPT WOULD BE ASKED TO BEAR IN EXCHANGE FOR WHAT CAN ONLY BE REGARDED AS MINIMAL INVESTMENT. FAHMY'S INSTRUCTIONS TO "STOP THE PROJECT" ARE A REFLECTION OF HIS APPRECIATION OF POLITICAL ASPECTS OF FORD PROPOSAL. OUROUSSOFF MENTIONED THAT GAZARINE HAD BEEN URGENTLY SUMMONED BY FAHMY ON JULY 5 FOR DISCUSSION OF PROBLEM. REPORT ON THIS MEETING WILL BE PASSED BY OUROUSSOFF TO CONGEN ALEXANDRIA LATER THIS WEEK AND PASSED TO US.

4. AD REFERENDUM NATURE OF DOCUMENT SIGNED MAY 18 WAS ALWAYS UNDERSTOOD BY FORD, ACCORDING TO OUROUSSOFF, AS WELL AS FACT THAT GOE COMMITTEE UNDER GAZARINE WAS ONLY MAKING RECOMMENDATIONS. COMPANY WAS, THEREFORE, PREPARED FOR FURTHER DISCUSSIONS/ MODIFICATIONS, BUT DID NOT EXPECT TOTAL REVERSAL ON INLAND - FREE ZONE CONCEPT, FOLLOWED BY STOPPAGE OF PROJECT. FORD IS THEREFORE AT A LOSS TO KNOW WHERE TO SART AGAIN, WHICH WAS GENESIS OF QUESTIONS PASSED TO AMBASSADOR.

5. AFTER LOOKING OVER FORD PAPER, AMBASSADOR SUGGESTED THAT PERHAPS FURTHER ADDITIONAL TIME SHOULD BE SPENT ON CONFIDENTIAL

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PAGE 03 CAIRO 09284 01 OF 02 081803Z

PREPARATORY WORK BEFORE COMPANY RESUMES DISCUSSIONS. THERE IS POSSIBILITY THAT FORD IS OVERLOOKING BASIC SHIFT IN NATURE OF PROBLEMS, WHICH ON BASIS MEETING WITH FAHMY APPEAR TO BE (A) MATTER OF EQUITY AND HOW EGYPT WOULD LOOK TO OTHER ARABS WITHOUT A SUBSTANTIAL INVESTMENT, AND (B) QUESTION OF RAISING MONEY FROM OTHER ARAB STATES. ON LATTER POINT, IT WAS AGREED THAT FUNDS SHOULD BE FAIRLY EASILY ATTAINED, BUT THAT

EGYPTIAN DESIRE NOT TO BECOME INVOLVED IN SOLICITATION WAS FULLY UNDERSTANDABLE. AMBASSADOR SUGGESTED THAT THERE MIGHT BE SOME VALUE TO A VISIT BY WILLIAMS AND FREDRICKS IN WAKE OF SHAFEI TELEGRAM, AS LONG AS IT WAS VIEWED AS EXPLORATORY AND NOT AN EXTENSION OF NEGOTIATING SESSIONS. FORD REPS COULD MEET WITH SHAFEI AND/OR FAHMY, ALTHOUGH IN LATTER CASE MEETING WITH MOHAMMED RIAD, WHO HAS BEEN HANDLING BOYCOTT QUESTIONS FOR GOE, MIGHT BE MORE PRODUCTIVE AND LESS VISIBLE. MEETING WITH PRIME MINISTER COULD PERHAPS BE EXPLORED WHILE TEAM IS IN EGYPT, AN ARRANGEMENT PREFERABLE TO SENDING OF TELEX REQUEST. IN OVERALL TERMS, AMBASSADOR POINTED OUT THAT QUESTIONS PASSED BY FORD FOCUS ON SUBSIDIARY ISSUES, AND NOT MAIN PROBLEM PRESENTLY FACING COMPANY. FORD REPS, WHENEVER THEY COME, SHOULD HAVE POSITION ON FORD EQUITY INVESTMENT ISSUE. IF THIS SATISFACTORY, NEGOTIATION OF OTHER ASPECTS LIKELY BE FACILITATED.

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PAGE 01 CAIRO 09284 02 OF 02 081811Z

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TO SECSTATE WASHDC 5091

C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 9284

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6. OUROUSSOFF STRESSED THAT FORD IS WILLING TO DO "ANYTHING" TO WORK OUT ACCEPTABLE INVESTMENT PROPOSAL, EITHER IN FREE ZONE OR INLAND. IN BOTH CASES CERTAIN PROBLEMS CAN BE EXPECTED TO ARISE, SOME OF WHICH HAVE ALREADY BEEN DISCUSSED. HE NOTED THAT COMMITTEE HAD RECOMMENDED IN MAY 18 DOCUMENT THAT FORD'S EQUITY BE RAISED TO \$25 MILLION, AND WHILE COMPANY HAD DEMURRED, A SUM OF THAT LEVEL WAS POSSIBLE, EVEN THOUGH IT NOW APPEARED THAT IT MIGHT NOW BE UNACCEPTABLE AT POLITICAL

LEVEL. ADDITIONAL OBSTACLE COVERED IN FORD PAPERS BROUGHT BY OUROUSOFF IS QUESTION OF DUTIES TO PROTECT MARKET IN EVENT FORD MOVES INLAND. HE POINTED OUT COMPANY NEEDED A MINIMUM 10 PERCENT SPREAD BETWEEN COSTS OF LOCALLY- MANUFACTURED AND IMPORTED VEHICLES AND WAS THEREFORE LOOKING FOR AN INCREASE IN DUTIES, FROM CURRENT 41 PERCENT TO AT LEAST 60 PERCENT. HE NOTED CURRENT RUMORS THAT GOE IS ABOUT TO REDUCE DUTIES TO 20 PERCENT, WHICH WOULD SERIOUSLY AFFECT VIABILITY OF PROJECT UNLESS COMMITMENT TO FUTURE INCREASES COULD BE OBTAINED. HE ALSO NOTED, IN PASSING, THAT PART OF COMPANY'S PROBLEMS RESULT FROM LINKAGE BETWEEN ENGINE MANUFACTURE, WHICH WAS INTITAL PROJECT, AND TRUCK ASSEMBLY. THIS WAS DONE IN ORDER THAT PROFITS ON TRUCKS, WHICH HE NOTED MAY BE "EXCESSIVE" COULD COVER LOSSES ON MOTORS. OUROUSOFF ALSO MENTIONED THAT BECAUSE OF LOW EQUITY, FORD FINANCIAL TEAM HAS RECOMMENDED THAT COMPANY NAME NOT BE PLACED ON

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PAGE 02 CAIRO 09284 02 OF 02 081811Z

PRODUCTS. FOR COVER PURPOSES, NAME WOULD BE RETAINED ON FACTORY ONLY. (THIS IS FIRST WE HAVE HEARD OF THIS SUGGESTION, WHICH WOULD CLEARLY BE UNACCEPTABLE TO EGYPT.)

7. COMMENT: IT SEEMS ##

FROM COMPLETION. THERE HAS EVIDENTLY BEEN CONSIDERABLE MUTUAL DISILLUSIONMENT , AND SOME OF THE BLAME CAN CLEARLY BE PLACED ON BOTH SIDES. EGYPTIANS PERCEIVE FORD, IN WORDS OF OUROUSOFF, AS "CAPITALIST PIGS SEEKING TO EXPLOIT EGYPT". AT SAME TIME, EGYPTIANS HAVE BEEN LESS THAN CANDID, LESS THAN ORGANIZED, AND LESS THAN EFFECTIVE IN DESCRIBING REQUIREMENTS FOR SUCCESSFUL INVESTMENT. ONE OF CASUALTIES OF DENOUEMENT IS PROBABLY GARZINE, WHO BEARS THE BLAME FOR PASSING TO FORD OBVIOUSLY WORTHLESS COMMITTEE AGREEMENTS. IN ADDITION, SHAFEI, WHO HAS FILLED THE AIR WITH ASSURANCES THAT THERE WAS NO PROBLEMS WITH INVESTMENT LAW REQUIREMENTS, ETC., DOES NOT COME OUTTOO WELL. HE CERTAINLY DID NOT FOLLOW TECHNICAL NEGOTIATIONS CLOSELY AND WE UNDERSTAND BOTH HE AND GAZARINE HAVE HAD THEIR KNUCKLES RAPPED BY PRIMIN. COMPANY IS STILL NTERESTED IN EGYPT, HOWEVER, AND THERE IS THEREFORE GOOD REASON TO BE HOPEFUL THAT NOW THAT PROBLEMS ARE CLEARLY SEEN, THEY CAN BE DEALT WITH BY BOTH PARTIES. ONE POSSIBILITY IS ASSEMBLING DIESEL ENGINES IN FREE ZONE AND TRUCKS INLAND IN PRESENT FORD FACTORY IN ALEXANDRIA.

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NOTE BY OCT: ## OMISSIONS; CORRECTION TO FOLLOW.

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